1996 ABACUS ANNUAL REPORT

dream

+build

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An annual report allows a company to present its activities for the past year in a sufficiently condensed form that the stakeholders get a feel for that company and the year's performance. In that we are concluding our first year as a public company, we feel it is also necessary to discuss the background history and vision of the company.

The theme of our annual report reflects quite well the processes the company has been going through. We are in a building phase right now, but it is not building for the sake of growth – but to fulfill a dream. It is building with the purpose of creating prosperity for our company and its stakeholders.

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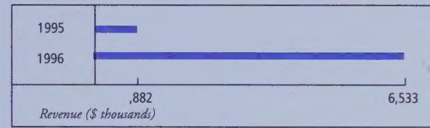
HIGHLIGHTS ABACUS ACCOUNTING SYSTEMS INC.

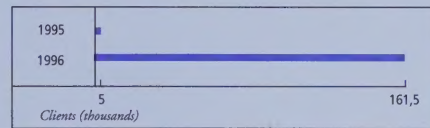
REVENUE INCREASE

640% increase over fiscal 1995, from $882,000 to $6,533,000.



CLIENT BASE INCREASE

3,130% increase over fiscal 1995, from 5,000 to 161,500.



ACQUISITION OF MICRORIM

Acquisition of Microrim and the critically acclaimed *R:Base* technology and product line is significant to the Corporation's future. By combining database and accounting expertise, Abacus is uniquely positioned to develop specialized business solutions, including Internet Database and Internet Commerce applications.

STRATEGIC ALLIANCES

IBM Development assistance and marketing alliance for OS/2 PM versions of *R:Base* and *R:Web.*

QUORUM GROWTH ASIA, SINGAPORE Product localization and marketing agreement for Abacus II for Singapore, Malaysia, the Philippines, Hong Kong, New Zealand and Australia.

B-CON SYSTEMS, JAPAN Renewed product localization and marketing agreement for Japanese versions of *R:Base* products.

FRAME SYSTEMS, FRANCE Product localization and marketing agreement for the French version of *R:Base* products.

COMPO SOFTWARE, GERMANY Product localization and marketing agreement for the German version of *R:Base* products.

PRODUCTS

ABACUS II

A fully integrated, multi-user accounting system designed for small to medium size businesses which includes: general ledger, accounts receivable, accounts payable, payroll for U.S.A. and Canada, purchase orders, inventory, order entry, point of sale, job estimating & costing, custom reporting, and a data dictionary for customization.

R:BASE

A powerful relational 32-bit database management system with cross platform capability to operate concurrently in DOS, Windows, Windows '95, Windows NT, OS/2 and OS/2 PM.

R:BASE SQL ENGINE FOR WINDOWS

A 32-bit PC-based SQL (standard query language) database engine that supports an unlimited number of users on a local area network, which offers developers the power to create custom applications using any Windows development environment that supports the ODBC (open database connectivity) standard.

R:WEB

A real-time Internet version of *R:Base* that automatically connects a Web page to the corporate database.

WEB ORDER TAKER

An Internet Commerce Order Entry system for businesses who wish to sell products via the Internet. Customers can interactively peruse their inventory and submit sales orders via the Internet, with seamless processing back to the corporate database or accounting files.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LETTER TO SHAREHOLDERS

DREAM

Abacus started out as a product without a company. The original Abacus accounting software system was a product of necessity. Available accounting software at the time was cumbersome, modular and difficult to use. We believed there had to be a more efficient way to maintain accounting and business records using a computer. After a lot of hard work Abacus was created – designed to provide a simplified, user friendly form of accounting software. Abacus distinguished itself early on by delivering more utility and value than competing products. Abacus was designed with both the user, and the future in mind. In 1983, a private company was formed to develop and sell this new software, and a dream was born.

That dream was to build a company which could grow and succeed in a global marketplace – not by going head-to-head against our competition, but by providing superior alternatives to their products.

That dream was to build a company which could grow and succeed in a global marketplace – not by going head-to-head against our competition, but by providing superior alternatives to their products. Abacus Accounting Software would be the first of those alternatives.

The lesson we learned in that very first year is one which we have held onto and which drives our business: create products which not only answer the immediate needs of the market, they also anticipate the needs of the future.

As the company grew, so too did our dedication to realizing the dream. The business office of the future would require a fully integrated accounting and business management software solution. We embarked on the creation of a suite of programs which would integrate all accounting functions with corporate database functions – programs that could track numbers, create data bases with them, then analyze, rationalize, and report the data as useful management information. It would be necessary for all of these programs to be capable of working together to allow information to flow seamlessly from office to office and in any medium, including local area networks and the Internet.

To take that next step, the company required a broader financial base. In 1994, the decision was made to become a public company. The response to that Initial Public Offering was strong; many Abacus clients became shareholders at the IPO stage. The capital raised allowed us to push forward with an aggressive, confident, building phase, in search of our dream.

BUILDING TECHNOLOGY FOR THE FUTURE

BUILD

We have always subscribed to the belief that accounting and business functions are best handled as database applications. Though we had the required expertise relating to accounting software, ownership and control of database technology was crucial. We attained that technology by acquiring the assets of Microrim, Inc., the developer of *R:Base*, a powerful relational database management system.

This gave us a combination of technologies which will allow us to become leaders in the field of Internet/Intranet database and commerce solution providers. These market opportunities are not currently being served by our mainstream competitors, and can not easily be replicated by others without the deep understanding of business application and database technologies, as we now have.

Product development and enhancement is a critical part of our future plans. To this end, a sizable investment has been made in research and development to improve and up-date our current products, as well as develop new ones for the future.

On the accounting side, *Abacus II for DOS* was upgraded to allow it to operate concurrently with *Abacus II for Windows*, which will be completed in fiscal 1997. We also developed *Exchequer*, a prototype 32-bit accounting "engine" for Internet/Intranet commerce applications, and *Web Order Taker*, a real-time order entry Internet software package.

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On the database side, *R:Base for Windows* was released in March, 1995, along with two subsequent upgrade versions later in the year. In addition, we partnered with SBT Internet Systems of San Rafael, California to develop and market a new Internet database software product, *R:Web*, the first native HTML relational database management system for the Internet.

Superior technology, a strong client base, and strategic relationships are the key requirements for success in the software industry. They became the focus of our activities over the past year.

Following the completion of *R:Web* we commenced development of the OS/2 PM (graphical) versions of *R:Base* and *R:Web* with assistance from IBM, which will be completed in fiscal 1997.

This aggressive development program will allow us to keep our competitive advantage and keep our customers satisfied and loyal. A significant part of future business will include Internet Database and Internet Commerce applications. We will be ready to capitalize on that future.

BUILDING OUR CLIENT BASE

Our strategy to build the Corporation's client base has been successful. By targeting and acquiring software companies delivering complementary products, we have been able to gain access to large existing client bases, and form important strategic relationships. Those new clients are offered software up-grades which automatically convert their out-dated programs to our current technology products. Conversely, we are able to cross-market the newly acquired complementary products to our existing clients. Marketing to large client groups is significantly more cost effective than marketing to new clients on a one-at-a-time basis.

Abacus has recently completed two successful acquisitions. Each of these new acquisitions, in their own way, make a significant impact on the future of the Corporation.

AMERICAN STAR ACCOUNTING SYSTEMS, INC. In November, 1994 we purchased the assets and business of American Star Accounting Systems, Inc. of Torrance, California. We wrote a program which automatically converts Star accounting data to Abacus II format, and were successful in converting 797 Star users to Abacus II as at January 31, 1996. In addition, many of the Star dealers have now become Abacus dealers.

MICRORIM, INC. In March, 1995 we purchased the assets and business of Microrim, Inc. of Bellevue, Washington. Microrim is the developer of *R:Base*, a popular and critically acclaimed relational database management system.

Microrim's first product, MicroRIM, was based on a relational database management system originally created for NASA's Space Shuttle project to run on a Cray supercomputer. *R:Base* was launched in 1983, as the first database management system to bring relational properties of data integrity and security from the mainframe to the PC.

Since then more than 725,000 *R:Base* seats have been registered, to more than 150,000 clients world-wide, with cumulative sales exceeding US$100 million. The system has since been translated into German, French, Japanese, and Korean languages.

A Windows version of *R:Base*, under development for 3 years, was released after the acquisition of Microrim. As at January 31, 1996 approximately 14,000 *R:Base* clients upgraded their DOS-based systems to the Windows version.

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STRATEGIC ALLIANCES As we continue this strategy of growth through acquisition, it has remained important to cultivate strategic alliances and pursue new opportunities to market our products.

In November, 1995 we finalized an alliance with China Trust Quorum Corporation, a member of the Quorum Group of Companies. Singapore-based Quorum Growth Asia Limited will commence marketing our software products in Malaysia, Singapore, the Philippines, Hong Kong, Australia, and New Zealand in fiscal 1997.

Our technology and products are commercially proven, stable, and uniquely poised for an exciting future.

In December, 1995 we entered into a product development and marketing agreement with IBM. Under the terms of this agreement, IBM will provide Microrim with product development and marketing assistance for the OS/2 PM (graphical) versions of *R:Base* and *R:Web.*

During the past year, we renewed several important international distribution alliances. BCon Systems of Tokyo, Japan, who have localized and distributed a Japanese DOS version of *R:Base* since 1983, expect to release the Japanese Windows version of *R:Base* in fiscal 1997.Other international projects under development include French and German versions of *R:Base for Windows* and *OS/2 PM*, and *R:Web*, also scheduled for release in fiscal 1997.

Channel distribution of *R:Base for Windows* and *R:Web* re-commenced domestically, and in Australia and the United Kingdom in January, 1996.

PROSPER

We now have a solid foundation on which to build our future. Because of our acquisitions and alliances we have a "harvestable" client base exceeding 161,500 customers and 260,000 registered seats (licensed packages) world wide. We own state-of-the-art core technologies, with accounting, database and Internet software solutions. We can expect significant revenue from existing clients for software updates, upgrades and technical support. We can expect revenue from new clients to increase as we cultivate the strategic relationships initiated in the past year, and expect to develop new alliances based on past models. Alliances with companies like Quorum and IBM, are opening doors for us in Pacific Rim countries and in Europe – two of the fastest growing economic zones in the world. The ramifications of these relationships will impact our success well into the future.

Our technology and products are commercially proven, stable, and uniquely poised for an exciting future. The process of building, though it will never stop, is now superseded by our interest in capitalizing on sales and marketing opportunities and expanding on the relationships we have made. Because we have spent the time and effort building our company, we are poised on the brink of steady, healthy, and secure financial growth.

Our dream, made those few short years ago, is coming to its realization. We now have the technology, products and corporate infrastructure necessary to proceed. When we step onto the global stage of the future, we will take with us a small company which had a dream, a dedicated group of employees who brought us to this point, and the shareholders who had the courage to share our vision.

R. Dwayne Kushniruk
PRESIDENT & CEO

MANAGEMENT'S DISCUSSION AND ANALYSIS

CORPORATE PROFILE

Abacus Accounting Systems Inc. is an Alberta-based public corporation whose shares trade on the Alberta Stock Exchange under the symbol ABT:ASE. The Corporation is a reporting issuer to the Alberta, British Columbia and Ontario Securities Commissions.

The Corporation owns 100% of the shares of two subsidiary corporations, A.S., Inc., a corporation based in Minot, North Dakota, which markets the Abacus accounting software products within the U.S.A., and Microrim, Inc. a corporation based in Bellevue, Washington which develops and markets the *R:Base* relational database management system software products world-wide.

The head office of the Corporation is located in Edmonton, Alberta, and as at January 31, 1996, had 39 employees. A.S., Inc. is operated out of the Edmonton office with one part time employee based in Minot, ND.

Microrim, Inc. is located in Bellevue, Washington. As at January 31, 1996, 66 employees worked out of the Bellevue location.

The Corporation is represented by non exclusive independent distributors or agents internationally in Japan, France, Germany, Australia, and Singapore.

OVERVIEW OF FISCAL YEAR ENDED JANUARY 31, 1996

Consolidated revenue for the year ended January 31, 1996 totaled \$6.533 million, an increase of 640%, as compared with \$0.882 million for the year ended January 31, 1995. The Corporation recorded a net loss of \$5.998 million (\$0.78 per share, weighted average basis) for fiscal 1996 compared with \$0.434 million for fiscal 1995 (\$0.16 per share, weighted average basis).

The Corporation has undergone a significant change during the last year. It commenced fiscal 1996 with 19 employees and approximately 5,000 customers, and ended the year with 106 employees, ownership of an established USA-based software company, and more than 260,000 customers. During the year it transitioned from a small private Alberta company doing business in Western Canada to become a public company, raising \$5.643 million (net of commissions and expenses) in new equity financing in the process. Approximately 87.0% of its revenue was generated outside Canada, from customers in the USA, Japan, Europe, and Australia.

FACTORS AFFECTING THE BUSINESS

Fiscal 1996 was a challenging year, with a focus on growth and building. The integration of the Microrim and Abacus operations, which management expects to result in significant economies of scale when completed, did not begin to occur until December, 1995. Once that process is completed (by end of the second quarter of fiscal 1997), the consolidated employee count is projected to decrease from 106 as at January 31, 1996, to 75 by the end of the first quarter of fiscal 1997, with a further decrease to 65 once the *Abacus II for Windows* and *R:Base OS/2 PM* software development projects are completed.

The Corporation spent \$1.309 million on software development projects in fiscal 1996, as compared to \$0.074 million which was capitalized to software technology in fiscal 1995.

Development projects included upgrades of existing products and development of new ones, including *Abacus II DOS* Version 4, *Abacus II Windows* Version, *Exchequer* 32-bit accounting engine prototype, *Web Order Taker, R:Base* Versions 5.0, 5.1 and 5.5 for Windows and OS/2 PM, and *R:Web for Windows* and *OS/2 PM*. All of these projects are scheduled for completion by the end of the second quarter of fiscal 1997.

The Corporation initiated an aggressive sales and marketing program with expenditures of \$2.247 million during the year, representing a 1,102% increase over fiscal 1995. Sales and marketing initiatives included advertising, trade shows, public relations, and training programs, as well as establishing re-seller networks and distributor channels, and developing strategic international development and marketing alliances. Most of these initiatives were conducted during the last four months of the year, and management expects the major benefit from these initiatives to occur in fiscal 1997.

The Corporation's agreement with CTQC Alberta Fund Number 1 Inc. (CTQC) will benefit the Corporation beyond use of the investment funds. Also considered was the interest of CTQC's related company, Quorum Growth Asia Limited, in marketing the Corporation's products in Asia. Subsequent to the year end, a marketing agreement was finalized with the Singapore-based Quorum marketing company.

The Corporation wrote down the value of its non-current (DOS and early Windows versions) software products in the amount of \$1.925 million in fiscal 1996. Prior to this write-down, an additional \$0.904 million of amortization expense was recorded during the year, resulting in a total of \$2.829 million of write-down and amortization expense relating to the technology in fiscal 1996. The decision to incur this one-time expense represents the most conservative approach regarding valuation of the Corporation's software technology (refer to the Software Technology segments of the Financial and Operating Condition Highlights section for more details in this regard).

ACQUISITIONS

The Corporation purchased the customer base and marketing rights to the American Star Accounting Systems in November, 1994. Payment for the acquisition was based on a royalty charge for each Star client which converted to Abacus products before June 30, 1995. The acquisition, which represented little risk to the Corporation, was successful, resulting in 797 new *Abacus II* clients as at January 31, 1996. Over the course of the conversion process which spanned fiscal 1995 and 1996, total conversion revenue generated from Star customers was \$309,741, and the final cost of acquisition totaled \$53,613.

The Microrim acquisition was a purchase of selected assets and assumption of selected liabilities relating to the *R:Base* technology and products, its client base, and computer and office equipment. The client base consists of 161,500 customers and 260,000 seats (registered software packages). The purchase price was \$3.348 million, comprised of \$0.690 million cash, \$1.393 million of assumed liabilities, and \$1.265 million of assumed deferred revenue obligations to customers who prepaid orders for future product releases (refer to note 5 of the financial statements).

This acquisition is believed to be significant to the Corporation's future. By combining database and accounting expertise, the Corporation is now uniquely positioned to develop specialized business solutions, including Internet Database and Internet Commerce applications. Management considers the ownership of the underlying database technology to be an important advantage for future development.

FINANCIAL CONDITION AND OPERATING HIGHLIGHTS

WORKING CAPITAL

Cash and short term investments increased by $1.630 million, due to the public offering and subsequent financing in fiscal 1996. Cash surplus to operational requirements was invested in short term treasury bills.

Management anticipates that, based on the current business plan, the Corporation will not require additional cash through fiscal 1997.

CAPITAL ASSETS

Capital assets increased during the year by $0.644 million on a cost basis. Of this amount, $0.159 was as a result of the Microrim acquisition, most of which was the assumption of capital leases of computer equipment. The balance consists of purchases of computer equipment, office equipment and computer software. These purchases were required to replace and upgrade past generation systems and to outfit new employees hired during the year.

SOFTWARE TECHNOLOGY WRITE-DOWN

The Corporation wrote down the value of the software technology relating to all of its non-current products (DOS-based and initial Windows versions of products), in the amount of $1.925 million. This decision was based on the determination that non-current products would no longer be sold, and because of the software industry's paradigm shift to new operating systems and environments.

When Microrim was acquired in March, 1995, management expected more value from the DOS and initial Windows version of *R:Base* than actually experienced during the last year. At time of acquisition, *R:Base* was considered to be a viable competitor for the PC database desktop market. Since that time, Microsoft and other companies unveiled aggressive new marketing initiatives for their PC desktop database products. Management has recognized the need to alter its strategy regarding the future of *R:Base*, in response to this intense competition. As a result, more development effort than initially anticipated was required during fiscal 1996 to expedite the transition from DOS to Windows and OS/2 PM, and to create new niche market products.

The new strategy for *R:Base* involves development of new GUI (graphical user interface) vertical specialized database solutions with products for niche markets, where competing products do not easily compete (e.g., *R:Web* and Web Order Taker for the Internet/Intranet). Additionally, the Corporation has focused renewed attention in developing a OS/2 GUI database product with assistance from IBM, for IBM's OS/2 PM users, a market in which no major competing products currently exist.

DEFERRED REVENUE

Deferred revenue includes revenue that has been received for products which have not yet been shipped. It is recognized as revenue only when the product is released and shipped. The Corporation conducted an "upgrade express" program which allowed customers to pre-order and purchase products upgrades at preferential pricing, prior to their release and delivery.

The recognition of deferred revenue became material due to the Microrim acquisition in fiscal 1996. Most technical support contracts purchased by customers span a twelve month period, therefore the unused portion of the annual fee received in advance is recorded as deferred revenue, with appropriate recordings to revenue adjusted monthly.

LONG TERM DEBT

A significant increase in long term debt occurred primarily as a result of the Corporation's agreement with CTQC Alberta Fund Number 1 Inc. ("CTQC") whereby CTQC advanced to the Corporation $1.000 million by way of a convertible subordinated loan as detailed in note 6 to the financial statements.

SHARE CAPITAL

Share capital increased by $6.021 million during the year due to the issuance of 6,989,661 shares. Additionally, stock options were granted to investors, agents, employees, and to CTQC as detailed in note 8 to the financial statements.

The shares and options were issued pursuant to a Prospectus dated January 27, 1995 (completed March 17, 1995) as filed with the Alberta Securities Commission, in connection with the Initial Public Offering of the Corporation, and a Prospectus dated September 29, 1995 (completed October 6, 1995) as filed with the Alberta, British Columbia, and Ontario Securities Commissions. The Corporation issued the shares to raise capital in connection with its Initial Public Offering and subsequent requirement for additional capital following the purchase of Microrim.

ABACUS LIMITED PARTNERSHIP

Prior to becoming a public company in September, 1994 the Corporation raised $686,813 which was used to continue research and development and to initiate certain marketing initiatives. These funds were raised pursuant to the formation of the Abacus Limited Partnership and sale of 981,161 Limited Partnership Units at $0.70 per unit. Upon the expenditure of the Limited Partnership funds by May 31, 1995, the Partnership Units were converted to shares of the Corporation on May 31, 1995 on a one Partnership Unit per share basis.

REVENUE

Revenue increased by 640% over fiscal 1995 to $6.533 million for the year ended January 31, 1996. As the Corporation's business activity is not seasonal, fluctuations in monthly sales may be attributed to the timing of the release of new products or upgrades.

Revenue is comprised of 11 months of sales from the Microrim operation in the amount of $5.288 million and $1.244 million from the Abacus operation. The increase of the Abacus portion of revenue represents an increase of 41% over fiscal 1995, due primarily to increased marketing efforts during the last four months of the year. As the Microrim operation did not exist in its present form in fiscal 1995, comparisons for the Microrim portion of revenue to the previous year are not available. Revenue includes interest income in the amount of $0.103 million from the investment of funds in short term treasury bills.

The Corporation did not receive significant international revenue (revenue from the U.S.A. excepted) from either *R:Base* or *Abacus* sales, although marketing alliances in Europe and Asia were established late in the year which are expected to commence generating revenue in fiscal 1997. Likewise, the Corporation did not receive revenue from channel distribution (retailers) during the year, however, management expects revenues from the channel distribution of *R:Web* to commence during the first quarter of fiscal 1997.

No significant revenue was realized from the OS/2 products during the year, however, the Corporation's development and marketing alliance with IBM is expected to create sales once *R:Base* 5.5 and *R:Web* for OS/2 are complete (expected by May, 1996).

EXPENSES

Direct cost of sales in the amount of $0.939 million were incurred, representing a slight decrease to 14.4% of revenue for fiscal 1996, as compared with 16.0% of revenue for fiscal 1995. This decrease was due to reduced packaging costs as a result of higher volumes.

General and administrative salary expenses in the amount of $2.440 million were incurred, representing an increase of 1,763% over the previous year, and general and administrative other expenses in the amount of $2.110 million were incurred, representing an increase of 383% over the previous year. This was due to several factors. Personnel levels were increased to deal with the issues of becoming, and operating, a public company. One time period costs relating to the raising of capital were incurred, and one time period costs relating to the research, due diligence and eventual acquisition of Microrim were incurred. Subsequent to the acquisition, the Corporation incurred additional costs to integrate the two operations.

Selling and marketing expenses in the amount of $2.247 million were incurred, an increase of 1,102% over fiscal 1995. This was due to increased sales and marketing initiatives. In particular, the Corporation's advertising and tradeshow expenses were increased significantly, in order to increase company and product awareness. Additionally, new sales personnel who were hired required extensive initial training, and as a result were not immediately productive.

Development costs in the amount of $1.309 million were expensed in fiscal 1996, as opposed to previous years, when development costs were capitalized. The Corporation adopted a more conservative approach to capitalizing these costs, due to the uncertainty of predicting the success of new projects, and the difficulty in predicting the future benefit of these projects in a highly volatile industry. During the year, the Corporation worked on ten software development projects as previously discussed. Amortization costs in the amount of $1.034 million were expensed in fiscal 1996 as compared to $0.210 million in the previous year, representing an increase of 392 %. These costs include amortization of software technology and capital assets as detailed in notes 3 and 4 to the financial statements.

Technical support costs in the amount of $0.668 million were incurred, representing an increase (10.2% of revenue for fiscal 1996 as compared with 5.9% of revenue for fiscal 1995) over fiscal 1995. This increase was due to an increased demand for telephone support assistance by customers of new products, and management's decision to improve customer support and relations.

No consulting fee expense was incurred in fiscal 1996 as compared with $0.194 million in fiscal 1995, which related to consulting work required prior to the initial public offering.

OUTLOOK

Fiscal 1996 was a challenging year, with significant growth. The Corporation focused on developing new products, initiating sales and marketing programs, increasing its client base, integrating its operations, and developing strategic alliances. This focus resulted in a sacrifice of profitability in fiscal 1996, in exchange for future gain and profitability.

The Corporation's new products are scheduled for completion by the second quarter of fiscal 1997, and include GUI version upgrades targeted at existing customers, and new Internet Database and Internet Commerce solutions targeted at new customers.

The Corporation's client base now exceeds 161,500 customers and 260,000 registered seats, from which significant future upgrade and technical support revenues is expected. As at January 31, 1996, only 14,000 seats have been converted to GUI products. Management believes that upgrades to the Corporation's new GUI products for the majority of this client base is inevitable in the future, given that a software upgrade is significantly more economical and efficient for the customer than implementation of a new unrelated software system. This is especially true of complex applications like accounting and core database systems.

The Corporation intends to continue with its strategy of pursuing opportunities where it can sell its new products in high volumes to large customer bases, including further acquisitions, strategic alliances and private labeling of its products for sale by other organizations.

Sales and marketing programs, and strategic alliances initiated in fiscal 1996 are expected to positively impact the Corporation's revenues in fiscal 1997. Advertising and public relations have raised general awareness of the Corporation and its products, as evidenced by more than 100 product reviews, articles and announcements which have been published, commencing the last quarter of fiscal 1996. *R:Base* international revenues are expected to increase in fiscal 1997 once the French, German and Japanese versions of *R:Base* commence shipping. Abacus international revenue pursuant to the Quorum alliance is expected to commence by the third quarter of fiscal 1997. Due to the write-down of software technology in fiscal 1996, no amortization cost for software technology ($0.904 million was recorded in fiscal 1996) is expected in fiscal 1997.

Subsequent to January 31, 1996 the Corporation was restructured to realize economies of scale. Once the integration of operations and development projects have been completed, the new corporate structure will allow the Corporation to be profitable based on annualized revenue of approximately $7.854 million, as compared to projected annualized revenue of $13.537 million which would have been required to attain profitability in fiscal 1996.

Management expects to attain profitability by the third quarter of fiscal 1997.

FINANCIAL STATEMENTS

MANAGEMENT'S LETTER

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING Management is responsible for the preparation of the Consolidated Financial Statements and other financial information. The financial statements are prepared on a historical cost basis and in accordance with the Canadian generally accepted accounting principles (GAAP). The financial statements and financial information include amounts that are estimates based on the best judgment of the Corporation's management and of the management of significant operating subsidiaries.

The Corporation maintains systems of internal accounting and administrative controls of high quality, consistent with reasonable cost. Such systems are designed to provide reasonable assurance that the financial information is relevant, reliable and accurate, and that the Corporation's assets are appropriately accounted for and adequately safeguarded. The systems are designed and operated under the supervision of a qualified financial officer at the Corporation.

CORPORATE GOVERNANCE The Corporation's Board of Directors is presently comprised of six members – the President and Chief Executive Officer, and five outside directors. The Board has plenary powers. Responsibilities not delegated to senior management or to a committee of the Board remain those of the full Board.

Addition of two members during the next year is contemplated, in order to attain a wider spectrum of specific industry expertise, particularly relating to database and software marketing issues.

The Audit Committee of the Corporation is composed of three outside directors and meets as required with management and independent auditors to review the Corporation's audited financial statements and to monitor accounting practices. The independent auditors, Ernst & Young, are appointed by the shareholders to conduct an independent examination in accordance with generally accepted auditing standards and express their opinion on the Consolidated Financial Statements.

The Compensation Committee is comprised of the President and three outside directors. Its function is to review and recommend to the Board on matters relating to compensation of key management personnel and the granting of share purchase options to employees, directors and consultants.

R. Dwayne Kushniruk
PRESIDENT & CEO

Steven T. Sutton
CHIEF FINANCIAL OFFICER

AUDITORS' REPORT

We have audited the consolidated balance sheets of *Abacus Accounting Systems Inc.* as at January 31, 1996 and 1995 and the consolidated statements of loss and deficit and cash flows for the years then ended. These consolidated financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at January 31, 1996 and 1995 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles.

Ernst & Young

CHARTERED ACCOUNTANTS
Edmonton, Canada March 22, 1996

FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEETS

AS AT JANUARY 31 ($ THOUSANDS)

	1996 $	1995 $
ASSETS		
Current		
Cash and short-term investments	2,003	373
Accounts receivable	539	125
Investment tax credit receivable	40	40
Due from related party *[note 10]*	34	34
Prepaids	226	22
	2,842	594
Capital assets *[note 3]*	629	103
Software technology *[note 4]*		449
Other		28
	3,471	1,174
LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIENCY)		
Current		
Accounts payable	1,415	327
Deferred revenue	838	
Current portion of long-term debt *[note 6]*	237	202
	2,490	529
Long-term debt *[note 6]*	1,249	381
Deferred income taxes	39	216
	3,778	1,126
Commitment and contingency *[notes 2 and 7]*		
Shareholders' equity (deficiency)		
Share capital *[note 8]*	6,499	478
Proceeds from issuance of Limited partnership units		378
Deficit	(6,806)	(808)
	(307)	48
	3,471	1,174

See accompanying notes

On behalf of the Board:

William D. Grace
CHAIRMAN OF THE BOARD

R. Dwayne Kushniruk
PRESIDENT & CEO

FINANCIAL STATEMENTS

CONSOLIDATED STATEMENTS OF LOSS AND DEFICIT

YEARS ENDED JANUARY 31 ($ THOUSANDS)

	1996 $	1995 $
REVENUE	6,533	882
EXPENSES		
General and administration – salaries & fees *[note 10]*	2,440	131
Selling and marketing	2,247	187
General and administration – other	2,110	437
Write-off of software technology	1,925	
Software development	1,309	
Amortization *[notes 3 and 4]*	1,034	210
Direct costs of sales	939	141
Technical support	668	52
Foreign exchange loss (gain)	(31)	30
	12,641	1,188
Operating loss	(6,108)	(306)
Other expense		
Interest on long-term debt	(67)	(66)
Consulting fees		(194)
Loss before income taxes	(6,175)	(566)
Deferred income taxes reduction	(177)	(132)
Net loss for the year	(5,998)	(434)
Deficit, beginning of the year	(808)	(374)
Deficit, end of the year	(6,806)	(808)

Loss per share *[note 9]*

See accompanying notes

FINANCIAL STATEMENTS

CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED JANUARY 31 ($ THOUSANDS)

	1996 $	1995 $
OPERATING ACTIVITIES		
Net loss for the period	(5,998)	(434)
Items not affecting cash:		
Amortization	1,034	210
Write-off of software technology costs	1,925	
Net change in non-cash working capital items	(520)	193
	(3,559)	(31)
FINANCING ACTIVITIES		
Issue of Limited partnership Units		687
Conversion of Limited partnership Units	(378)	
Proceeds from issuance of share capital	6,021	478
Long-term debt incurred	1,255	23
Long-term debt repayment	(352)	(597)
Deferred income tax reduction	(177)	(132)
	6,369	459
INVESTING ACTIVITIES		
Purchase of capital assets	(512)	(41)
Proceeds on sale of capital assets	2	11
Business acquisition *[note 5]*	(690)	
Repayment from related party		23
Software technology costs incurred		(74)
Reduction in investment tax credit	20	
Net change in non-cash working capital		78
	(1,180)	(3)
Increase in cash and short-term investments, during the year	1,630	425
Cash and short-term investments (bank indebtedness), beginning of the year	373	(52)
Cash and short-term investments, end of the year	2,003	373

See accompanying notes

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JANUARY 31, 1996 AND 1995

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the company have been prepared in accordance with generally accepted accounting principles, the more significant of which are outlined below:

Basis of consolidation

The consolidated financial statements include the accounts of the company and its subsidiary companies, all of which are wholly-owned. The result of operations of subsidiaries acquired during the year are included from their respective dates of acquisition.

Capital assets

Capital assets are recorded at cost. Amortization is provided over the estimated useful lives of the assets using the following methods and rates:

	Method	Rates
Office equipment	Diminishing balance	20%
Computer hardware	Diminishing balance	30%
Leasehold improvements	Straight-line	20%
Computer software	Diminishing balance	20%
Capital leases	Straight-line	20%

Software technology

Software technology relating to the development of new software products, which meet specific criteria related to technical, market and financial feasibility, are capitalized and include direct materials, salaries and other direct costs.

Amortization of software technology commences upon commencement of commercial production. The costs are amortized on a straight-line basis over a period of three years. Prior to 1996, the amortization period was five years. This change was made to conform to industry practice and to reflect the rapid changes in the industry. In the event that software costs are not of continuing benefit to the company, these amounts are written off.

The carrying value of software technology costs is assessed on an annual basis by analyzing the projected revenue and the continuing development costs required to maintain the technology.

Investment tax credits

The company accounts for its investment tax credits by the cost reduction method.

Revenue recognition

The company recognizes revenue on service and support contracts on a pro-rata basis throughout the duration of contracts.

Foreign currency translation

The company's foreign operations are of a financially interdependent nature and accordingly, the accounts in foreign currencies have been translated using the temporal method. Under this method, monetary assets and liabilities of the company's foreign operations are translated at the period end exchange rates. Non-monetary items are translated at rates in effect on the dates of the transactions. Revenues and expenses are translated at weighted average exchange rates for the period. Exchange gains or losses are recognized currently in earnings.

Deferred income taxes

The company follows the deferral method of accounting for income tax. Timing differences giving rise to deferred income taxes relate to claiming scientific research expenditures and capital cost allowance in excess of amortization charged in the financial statements.

2. GOING CONCERN UNCERTAINTY

The accompanying financial statements have been prepared in accordance with generally accepted accounting principles on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business.

The company is in its formative years in a highly competitive market. In addition, the company has incurred losses in each year since inception and has an accumulated deficit of $6,806,396 as at January 31, 1996 (1995 - $808,387). The ability of the company to continue as a going concern is uncertain and is dependent on obtaining a sufficient market share to finance the company's operations.

These financial statements do not include any adjustments to the amounts and classification of assets and liabilities that may be necessary if the company is unable to continue as a going concern.

3. CAPITAL ASSETS ($ thousands)

	1996 Cost $	1996 Accumulated depreciation $	1995 Cost $	1995 Accumulated depreciation $
Office equipment	90	26	52	14
Computer hardware	341	75	80	23
Leasehold improvements	9	4	7	2
Computer software	18	5	5	2
Equipment under capital lease	330	49		
	788	159	144	41
Net book value	629		103	

Amortization provided for in the current year totalled $117,491 (1995 - $23,562).

4. SOFTWARE TECHNOLOGY ($ thousands)

	1996 $	1995 $
Development costs capitalized	913	913
Reduction in investment tax credit	20	
Software technology acquired	2,359	
Less		
Accumulated amortization	1,367	464
Write-off of software technology	1,925	
	0	449

Amortization provided for in the current year totalled $903,685 (1995 - $182,782). The Corporation adopted a more conservative approach to the valuation of software technology costs. As a result of the uncertainty of predicting the success and the future benefits of new projects in a highly volatile market which is subject to constant change, the Corporation has determined that none of the costs previously capitalized meet the stringent criteria to allow capitalization and therefore all software technology costs previously capitalized and all costs incurred in the year have been recognized as an expense.

5. BUSINESS ACQUISITION ($ thousands)

On March 1, 1995, the company acquired the net assets of Micorim Inc., to continue with the development and distribution of computer software products. The acquisition has been accounted for under the purchase method of accounting and the results of earnings since the date of acquisition has been included in the consolidated statement of income.

Details of the consideration given and the fair values of assets acquired are as follows:

	1996 $	1995 $
Assets acquired		
Current assets	830	
Capital assets	159	
Software technology	2,359	
	3,348	
Liabilities assumed		
Current liabilities	1,393	
Deferred revenue	1,265	
	2,658	
Cash consideration	690	

6. LONG TERM DEBT ($ thousands)

	1996 $	1995 $
Small business loan, repayable in monthly payments of $3,000 plus interest at prime plus 1%.	1	37
Small business loan, repayable in monthly payments of $2,267 plus interest at prime plus 1%.	63	
Loan payable, bearing interest at 7% until November 27, 1996 and 9% thereafter. Convertible into common shares of Abacus Accounting Systems Inc. at the holder's option at $1.75 per share from date of issue to November 27, 1996, at $2.00 per share from November 28, 1996 to November 27, 1997, and at the higher of $1.75 and the thirty day weighted average trading price of the common shares on the relevant exchange up to November 27, 2000. The loan is due and payable on November 27, 2000. Collateralized by a fixed charge against all assets of the corporation.	1,000	
Loan payable (1996 - $81,663 U.S., 1995 - $100,000 U.S.), repayable in monthly principal payments of $1,667 U.S. commencing March 1995. Non-interest bearing and not collateralized.	112	141
Loan payable (1996 - $39,997 U.S., 1995 - $50,000 U.S.), bearing interest at 4%. Principal and interest payments of $920 U.S. commenced January 1995. The loan is not collateralized.	55	69
Loan payable (1996 - $34,670 U.S., 1995 - $100,000 U.S.), bearing interest at 8% starting November 1994 and repayable in eighteen equal instalments of $5,914 U.S. starting on February 15, 1995.	48	141
Loan payable (1996 - $25,000 U.S., 1995 - $25,000 U.S.), bearing interest at 5% due April 1996 (interest deferred until maturity date).	34	35
Loan payable with principal due on demand, repayable in monthly payments of interest only at bank prime plus 2% and collateralized by accounts receivable.		160
Capital lease obligations issued at varying rates of interest up to 14.5% and maturing on varying dates up to December 1998.	173	
	1,486	583
Current portion of long-term debt	237	202
	1,249	381

Principal amounts on long term debt due in future periods ended January 31 are as follows:

	$
1997	151
1998	68
1999	50
2000	41
2001	1,003
	1,313

Principal amounts on capital leases in future periods are as follows:

	Gross $	Imputed Interest $	Principal $
1997	103	17	86
1998	62	10	52
1999	40	5	35
2000			
2001			
	205	32	173

7. COMMITMENT ($ thousands)

The company has existing lease commitments on office facilities totalling $1,032 over the next three years as follows:

	$
1997	372
1998	371
1999	289
	1,032

8. SHARE CAPITAL ($ thousands)

a) Authorized

Unlimited number of common shares

Unlimited number of preferred shares

At January 31, 1996 the company has issued options to acquire 2,670,914 common shares at exercise prices ranging from $0.75 to $2.00 per share with expiration dates between March 31, 1997 and October 24, 2000.

b) Issued

	1996 Shares	1996 $	1995 Shares	1995 $
Common shares				
Beginning of the year	4,644,143	478	10	
Share split *[see (i) below]*			917,110	
Shares issued for cash			750,002	60
Shares issued on exchange of preferred shares *[see (iv) below]*			1,488,000	
Shares issued on conversion of note payable *[see (ii) below]*			1,112,000	278
Shares issued on conversion of long term debt *[see (ii) below]*			377,020	140
Shares issued on acquisition of related company *[see (iii) below]*			1	
Shares issued for cash *[see (v) below]*	1,450,000	963		
Shares issued on conversion of special warrants *[see (vii) below]*	2,000,000	1,723		
Shares issued for cash *[see (vi) below]*	2,500,000	2,913		
Shares issued for cash – options	58,500	44		
Shares issued on conversion of Abacus Limited Partnership Units	981,161	378		
End of the year	11,633,804	6,499	4,644,143	478

	1996 Shares	1996 $	1995 Shares	1995 $
Preferred shares				
Beginning of the year			372	
Shares exchanged for common shares			(372)	
End of the year				

(i) On April 30, 1994 the company split all of the issued and outstanding 10 common shares into 917,120 common shares.

(ii) On August 31, 1994 the $278,000 note payable to a related party was exchanged for 1,112,000 common shares and debt holders in the former parent company of A.S. Inc. exchanged $140,000 of debt for 377,020 common shares.

(iii) On August 31, 1994 one common share with a value of $1 was issued on the acquisition of 526575 Alberta Ltd.

(iv) On August 30, 1994 the 372 preferred shares were exchanged for 1,488,000 common shares.

(v) On March 17, 1995 the company completed the issuance of 1,250,000 common shares at $0.75 per share to the public. In connection with this issue of shares, the company granted a stock option to the agent for 200,000 shares exerciseable at $0.75 per share until March 17, 1996. On June 12, 1995, the agent exercised 100,000 of its stock option. On January 8, 1996, the agent exercised the balance of the option.

(vi) On October 6, 1995 the company completed the issuance of 2,500,000 common shares at $1.35 per share to the public. In connection with this issuance of shares, the company granted second warrants to the agent for 250,000 shares exercisable at 1.35 per share until March 31, 1997.

8. SHARE CAPITAL (continued)

(vii) On October 9, 1995 the company issued 2,000,000 shares in exchange for 2,000,000 special warrants issued at $1.00. The company also issued 1,000,000 warrants exercisable at $1.50 per share, until March 31, 1997. In connection with this issue of shares, the company granted stock options to the agent for 200,000 first warrants at $1.50 per share until March 31, 1997 and 100,000 warrants exercisable at $1.50 per share until March 31, 1997.

During the fiscal year ended January 31, 1996, pursuant to a management, directors, officers, employees and consultants stock option plan dated October 13, 1994, the company issued options to purchase 589,414 shares at $0.75 per share. The options expire on November 1, 1999. On October 24, 1995 the company issued options to purchase 390,000 shares at $1.15, 200,000 expire on October 24, 2000 and 190,000 expire on October 24, 1999. On November 27, 1995 the company issued options to purchase 200,000 shares at $2.00 per share. These options expire November 27, 1997.

9. LOSS PER SHARE

The 1995 loss per share has been calculated after giving effect to the 91,712:1 share split. The loss per common share and the weighted average number of shares are as follows:

	1996 $	1995 $
Loss per share	(0.78)	(.16)
Weighted average number of shares	7,729,182	2,720,047

10. RELATED PARTY TRANSACTIONS

$34,350 (1995 - $34,350) is due from a company controlled by a senior member of the management of Abacus Accounting Systems Inc. The receivable is non-interest bearing and has no specified terms of repayment.

Included in general and administrative - salaries and fees expense are management fees paid to a company controlled by the CEO of the company. These fees total $64,417 (1995 - $91,815) of which $nil (1995 - $20,787) was capitalized as part of the software technology costs.

The company incurred interest of $32,277 for the period ended January 31, 1995 to an affiliated party on the notes payable. The total interest incurred was paid during the year.

11. INCOME TAXES ($ thousands)

The provision for income taxes differs from the amount that would have been expected by applying Canadian corporate income tax rates of 45% to income before taxes. The principal reasons for this difference are as follows:

	1996 $	1995 $
Loss before income taxes	6,175	566
Statutory income tax rate	44.6%	44.6%
Anticipated tax recovery	2,754	252
Increase (decrease) resulting from:		
Potential benefit of current losses not recognized	(1,653)	(252)
Amortization for accounting in excess of amounts for tax purposes	(592)	
Timing differences on the recognition of the limited partnership expenses	177	132
Accounting accruals not allowed for income tax purposes	(275)	
Rate differential on foreign income/(losses)	(173)	
Non-deductible expenses and other	(61)	
Income tax provision	177	132

The company has non-capital losses of $1,161,454 which may be carried forward and used to offset taxable income in future years. The losses begin to expire in 2002. In addition, subsidiaries of the company have operating losses carried forward of $1,202,614 at January 31, 1996 which may be used to offset taxable income earned in future years until 2011 in accordance with the income tax laws of the United States.

The company has Scientific Research and Development Expenditures carried forward in the amount of $144,877 which may be used to offset taxable income in future years which expire commencing in the year 2000.

The potential benefit of these amounts has not been recorded in these financial statements.

12. SEGMENTED INFORMATION ($ thousands)

The company is primarily engaged in the computer software industry (which involves the development and marketing of computer software) in North America. Operations and identifiable assets by geographic region for the year ended January 31, 1996 are as follows:

	$
Net sales from:	
Canadian operations	849
U.S. operations	5,684
	6,533
Operating loss from:	
Canadian operations	1,789
U.S. operations	4,209
	5,998
Identifiable assets from:	
Canadian operations	2,507
U.S. operations	964
	3,471

There are no inter-segment sales. In the prior year, the company operated primarily in Canada and the increased sales in the United States are as a result of the acquisition of the Microrim assets (see note 5).

13. COMPARATIVE FIGURES

Certain of the amounts in the comparative financial statements have been reclassified from statements previously presented to conform to the presentation of the 1996 financial statements.

CORPORATE INFORMATION

BOARD OF DIRECTORS

William D. Grace
Corporate Director and Consultant
Former Managing Partner, Price Waterhouse,
Edmonton Office, Edmonton, Alberta
Chairman of the Board

Bruce C. Grant
Senior Vice President, Western Canada
Quorum Funding Corporation
Vancouver, British Columbia

R. Dwayne Kushniruk
President, Abacus Accounting Systems Inc.
Edmonton, Alberta

Robert J. MacLean
President, PTI Group
Edmonton, Alberta

William R. McMahan
President, Oxbow Capital Corporation
Calgary, Alberta

Dr. Peter G. Pellatt
President, Pellatt & Associates Inc.
Edmonton, Alberta

OFFICERS & MANAGEMENT

R. Dwayne Kushniruk, *President & Chief Executive Officer*
Steven Sutton, *Chief Financial Officer*
[1] Art Miller, *Chief Operations Officer*

[1] Rufe Vanderpool *was appointed Chief Operations Officer in February, 1996, subsequent to the fiscal year end.*

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STOCK EXCHANGE LISTING

Alberta Stock Exchange
Reporting issuer to the Alberta, British Columbia and Ontario Securities Commission

SHARE SYMBOL

ABT

REGISTRAR AND TRANSFER AGENT

Montreal Trust
600, 530 - 8th Avenue S.W.
Calgary, Alberta T2P 3S8
Telephone (403) 267-6800 • Facsimilie (403) 267-6879

INQUIRIES FROM SHAREHOLDERS

Any notification regarding change of address or change in registration of shares should be directed to the Transfer Agent. Any inquiries other than change of address or change in registration may be directed to the President and Chief Executive Officer.

Every effort has been made to eliminate duplications in our shareholders' mailing list. However, if you have more than one holding, you will receive a separate report for each registration unless your shares are registered under exactly the same name.

ANNUAL MEETING

The annual meeting of the common shareholders of Abacus Accounting Systems Inc. will be held on June 11, 1996 at the Mayfair Golf and Country Club, Edmonton, Alberta, at 11:00 a.m. (MST)

INVESTOR INQUIRIES

For further information concerning the Corporation, or if you would like to receive mailings on an on-going basis, please contact us as follows:

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